

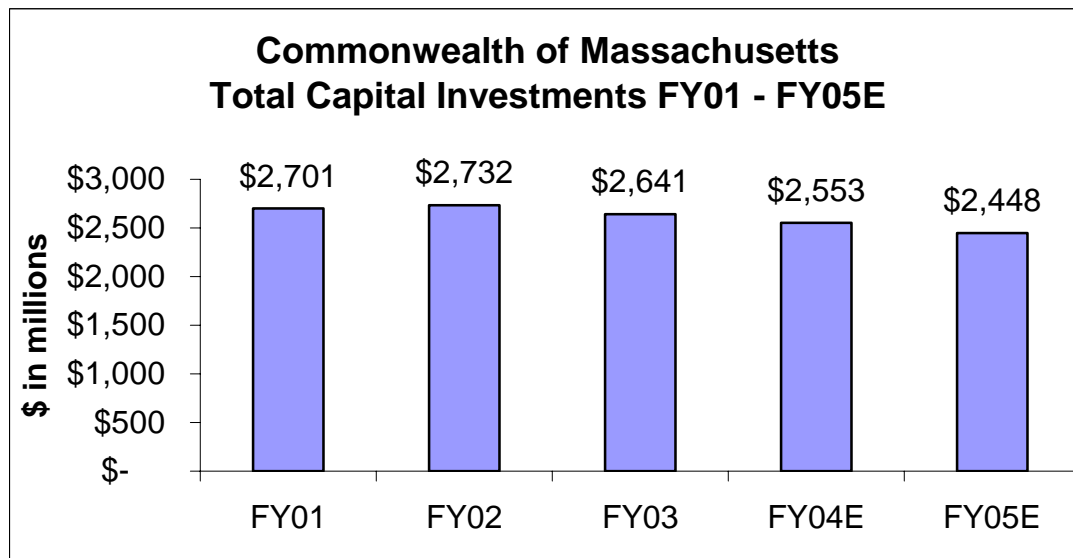
COMMONWEALTH CAPITAL INVESTMENT PLAN

INTRODUCTION

The Executive Office for Administration and Finance (A&F) develops and manages a multi-year capital investment plan. This plan allows the Commonwealth to establish capital investment priorities throughout its state agencies and to plan for the sourcing of funds required to support these investments. The capital investment programs are managed through seven state agencies and two independent authorities. In addition to direct capital investments, A&F allocates, on behalf of the Commonwealth, federally provided private activity bond volume capacity amongst three independent authorities to finance economic development projects, student loans, affordable housing projects, and low interest mortgages.

Expenditures

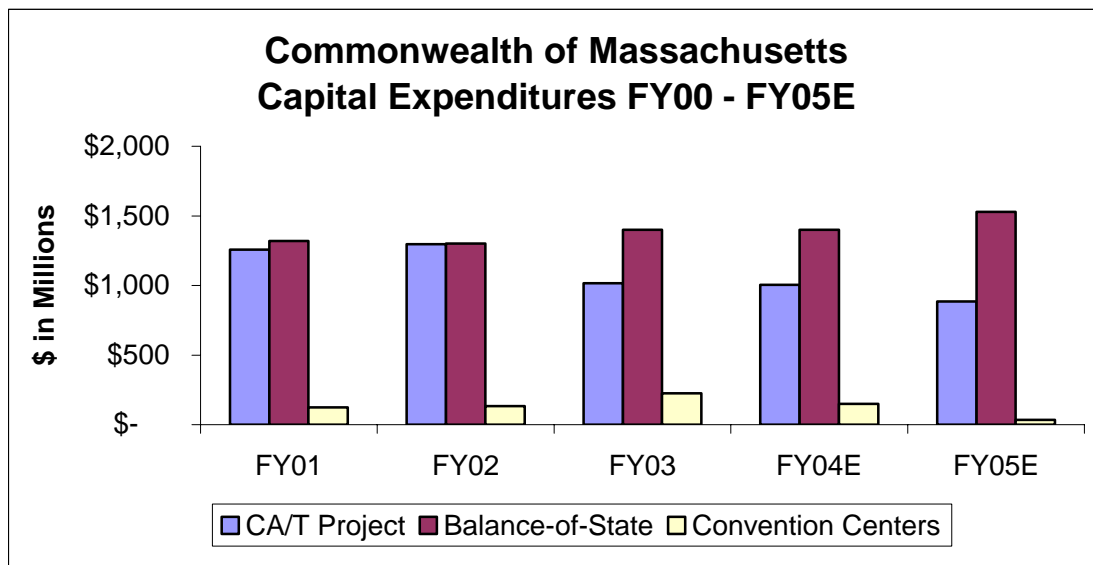
The Commonwealth is projected to expend \$2.448 billion for capital investments in FY05, a \$105 million decrease from FY04. The following chart summarizes the Commonwealth's total capital investments since FY00:



The investments are segregated into three separate capital budgets:

- **Central Artery/Third Harbor Tunnel Project**, which is managed by the Massachusetts Turnpike Authority;
- **Boston Convention and Exhibition Center and the Springfield Arena and Convention Center**, which are managed by the Massachusetts Convention Center Authority; and
- **“Balance-of-State”**, which are capital investments in state agencies managed by the Executive Office for Administration and Finance through state agencies.

The graph below provides a historical trend analysis of the Commonwealth's investments in the capital budgets:



Funding

The budgets are funded by Commonwealth debt (both general obligation and special obligation), operating revenues, third-party payments, and federal reimbursements. The following provides an analysis of the amount and percentage of the annual total that each funding source contributed to the Commonwealth's total capital investment plan:

Source of Funds (\$ millions)	FY01		FY02		FY03		FY04E		FY05E	
	\$	%	\$	%	\$	%	\$	%	\$	%
Funds from Debt Issuance	2,018	75	1,995	73	1,726	65	1,760	69	1,702	70
Operating Revenues	141	5	195	7	354	13	51	2	155	6
Third-Party Payments	82	3	52	2	52	2	126	5	98	4
Federal Reimbursements	460	17	490	18	509	19	616	24	493	20
Total*	2,701	100	2,732	100	2,641	100	2,553	100	2,448	100

*Totals may not add due to rounding

Funds from debt issuance averaged 70% during this period. The reliance on debt proceeds contributed to the Commonwealth's increased debt load. The Commonwealth had approximately \$11.8 billion in direct debt outstanding on June 30, 1999 and is projected to have approximately \$16.7 billion as of June 30, 2004, for a 7.2% compound annual growth rate.

Administrative Bond Cap

In the early 1990's, A&F instituted an administrative bond "cap", which established an annual level of bond issuance in support of the "balance-of-state" capital budget. The FY05 administrative bond cap is \$1.150 billion in support of the \$1.588 billion "balance-of-state" capital investment plan. The Administration announced in the fall of 2003 that the bond cap would rise to \$1.250 billion annually in FY06 through FY08. The following details the administrative bond cap and total "balance-of-state" capital expenditures since FY01:

Administrative Bond Cap					
(\$ millions)	FY01	FY02	FY03	FY04E	FY05E
Administrative Bond Cap	1,000	1,175	1,234	1,178	1,150
"Balance-of-State" Expenditures ⁽¹⁾	1,319	1,302	1,401	1,399	1,588
Cap as Percent of Expenditures	76%	90%	88%	84%	72%

⁽¹⁾ Includes federal reimbursement

Capital Budgeting Process

The Administration revamped the planning process for the "balance-of-state" capital plan in FY04. Capital planning now requires that state agencies develop budget proposals based on a "modified zero-based budget" paradigm. This paradigm recognizes that many capital investments take multiple years to design and construct. As such, these projects are allocated funds over the life of the project, which sets the baseline capital budgets for the state agencies. All other proposed investments are subject to review by A&F and compete for unallocated funds.

In addition to the new budgeting approach, the capital planning process requires state agencies to segment their capital budget proposals by category of spending. These categories are called "Major Program Categories." To augment the budget proposals, state agencies submit memorandums describing these Major Program Categories, including historical spending, project concentration and program outcomes. A&F conducts due diligence on each budget proposal by meeting with each state agency and analyzing the submitted plans.

Upon completion of the due diligence process, A&F sets the capital budget and notifies state agencies of their budgets and approved programs/projects. The capital budget is developed based on the following tenets:

- "Fix-It-First": An Administration priority to repair the Commonwealth's productive asset base
- Finishing projects on time and within budget
- Reimbursing grant recipients on a timely basis
- Limiting expansion to only core needs
- Limiting non-capital costs on the capital budget

FY05 Capital Budget

A&F approved a \$1.28 billion "balance-of-state" capital budget (excluding federal reimbursements) for FY05. The following table details the capital budget allocations by state agency from FY00 through FY05:

"Balance-of-State" Capital Budget (\$ millions)						
Agency	Focus	FY01	FY02	FY03	FY04E	FY05E
A&F	Economic Development	102	99	79	64	53
DCAM	Infrastructure	179	235	272	250	293
DHCD	Housing	79	106	112	122	123
EOEA	Environment	140	156	134	122	132
EOPS	Public Safety	23	8	37	21	24
EOTC	Transportation	766	694	653	566	573
ITD	Technology	64	86	76	76	82
Total		1,353	1,384	1,363	1,221	1,280

BALANCE-OF-STATE

Economic Development

(\$ MM)	FY01	FY02	FY03	FY04E	FY05E
Total	\$102	\$99	\$79	\$64	\$53

In FY05, capital spending under the control of the Executive Office for Administration and Finance funds a variety of projects, including construction of off-street parking garages and construction grants to 25 public libraries around the Commonwealth. A&F will continue to support projects such as the expansion of the Massachusetts Museum of Contemporary Art in North Adams and the continued redevelopment of Devens. A&F funds also provide the annual state match to secure federal contributions to the Water Pollution Abatement Trust, which supports construction of municipal water and wastewater treatment facilities.

Infrastructure

(\$ MM)	FY01	FY02	FY03	FY04E	FY05E
Total	\$179	\$235	\$272	\$250	\$293

The Division of Capital Asset Management and Maintenance (DCAM) capital plan includes a significant investment in the rehabilitation of the Commonwealth's asset base as part of the Administration's "Fix-It-First" policy. DCAM is in the midst of a multi-year effort to rehabilitate courthouses throughout the state and address access/ADA issues at some of the Commonwealth's aging court buildings – 40% of DCAM's FY05 capital budget will be spent on courts. DCAM will also invest in construction and repair of office buildings for state agencies and higher education institutions, Health and Human Service facilities, jails, and other public safety facilities. Highlights of DCAM's capital spending include:

State Office Buildings (\$52M)

- Demolition at Metropolitan, Rutland, and Foxborough State Hospitals and Worcester City Hospital in preparation for disposition
- Lawrence Mills redevelopment in Lowell
- Security enhancements at state office buildings
- Repairs to the foundation of the State House

- Expansion of Veteran's Memorial Cemetery in Winchendon

Courts (\$109M)

- New courthouse in Plymouth
- \$22M on construction in Worcester
- Significant renovation projects on the Cambridge, Brooke Courthouse, and Suffolk County high-rise courthouses

Health and Human Services (\$24M)

- New DYS girls' facility in Westborough
- Renovation at the Western Massachusetts Hospital
- Continued repairs to soldiers' homes in Chelsea and Holyoke

Public Safety (\$36M)

- Replacement of 100 year old Franklin County Jail
- Construction of a new Women's Correctional Facility in Chicopee
- Construction of the Barnstable County Jail and House of Correction and Middlesex House of Correction is nearing completion

State and Community Colleges (\$36M)

- Ongoing construction of new academic buildings at Holyoke, Cape Cod, and Northern Essex Community Colleges
- Significant renovation and asbestos abatement at Cape Cod, Springfield Tech, and Greenfield Community Colleges, and the Massachusetts College of Liberal Arts

University of Massachusetts (\$36M)

- Completion of the Campus Center at Boston
- Improvements to the WEB Dubois Library at UMASS Amherst
- Infrastructure improvements to the Engineering Research Center for Collaborative Adaptive Sensing of the Atmosphere at UMASS Amherst in support of the largest ever research grant in UMASS history

Transportation

(\$ MM)	FY01	FY02	FY03	FY04E	FY05E
Total	\$766	\$694	\$653	\$566	\$573

The Executive Office of Transportation and Construction's (EOTC) capital investment plan funds projects that further the Administration's policies of "Fix-It-First" and "Smart Growth" for the Commonwealth. EOTC projects are categorized as follows: Road and Bridge Construction and Maintenance, Local Aid and Economic Grants, and Other Transportation.

Road and Bridge Construction and Maintenance

EOTC's capital investment plan provides significant funding for road and bridge maintenance and construction. MassHighway is in its fourth year of a five-year commitment to spend at least \$400 million on construction costs related to the Statewide Road and Bridge Program. In FY04, the department will exceed the \$400 million commitment and should approach \$500M under the FY05 budget.

Local Aid and Economic Grants

EOTC's capital investment plan includes funding for Chapter 90, Public Works Economic Development (PWED) grants, and the Small Town Road Assistance Program (STRAP).

- Chapter 90 allocations to cities and towns fund local road and bridge construction and maintenance projects. In September 2003, the Administration awarded \$100 million through this program to cities and towns. The grants awarded to the Commonwealth's municipalities are based on a formula incorporating road miles, employment levels, and population.
- PWED grants fund the design and construction of transportation and infrastructure projects targeted to spur economic development in cities and towns. As of the beginning of FY05, EOTC has 65 active PWED contracts totaling \$37 million in committed funds.
- STRAP provides small towns with additional resources for local road repair and construction costs.

Other Transportation Programs

EOTC's capital investment plan includes funding for other transportation programs including water and rail transportation, regional transit authorities, mobility assistance for the elderly, and construction and rehabilitation of regional intermodal centers.

Environmental Affairs

(\$ MM)	FY01	FY02	FY03	FY04E	FY05E
Total	\$140	\$156	\$134	\$122	\$132

The current five-year capital investment plan for the Executive Office for Environmental Affairs (EOEA) funds a broad range of capital projects, both large and small. EOEA's most significant function is infrastructure maintenance and improvement. The agency constructs and repairs recreational facilities including state parks, skating rinks, pools and beaches, and supports infrastructure improvements to roadways, bridges, dams, seawalls, while the Seaport Advisory Council funds harbor revitalization projects.

EOEA also funds natural resource protection projects with a focus on eliminating imminent risks to public health or the state's natural resources. Projects include watershed preservation, erosion prevention, and pollution prevention and remediation, including brownfields restoration and clean air monitoring. EOEA also assists state agencies and local communities plan for sustainable land use by providing technical assistance and information. This year, the Office of Commonwealth Development reviewed the acquisition of open-space and development rights to focus scarce resources on protecting the most valuable land at the lowest cost.

Public Safety

(\$ MM)	FY01	FY02	FY03	FY04E	FY05E
Total	\$23	\$8	\$37	\$21	\$24

The Executive Office for Public Safety (EOPS) will devote the majority of its capital spending this year to replacing its aging fleet of state police vehicles. EOPS will purchase 500 new vehicles to replace 20% of its fleet, and 200 of the new cars will be equipped with mobile data terminals that allow troopers in the field to access criminal and driving records while freeing up radio frequencies for more critical calls.

Additionally, the capital plan also includes funding to rehabilitate firefighter-training facilities, purchase equipment for the state police crime lab, and provide bulletproof vests to cities and towns.

Housing and Community Development

<i>(\$ MM)</i>	FY01	FY02	FY03	FY04E	FY05E
Total	\$79	\$106	\$112	\$122	\$123

The Department of Housing and Community Development (DHCD) coordinates the Commonwealth's housing investments. The agency oversees all state-assisted public and private housing programs for low- and moderate-income families and individuals, including the elderly and others with specialized residential needs, and provides a variety of economic and community development services to local governments.

Oversight responsibilities include the state's 254 local housing authorities and their more than 50,000 public housing units, and private housing programs that provide affordable homeownership and rental opportunities in the private sector. In cooperation with the federal government, other state and local agencies, and private sector entities, DHCD is also responsible for implementing and monitoring the delivery of federal and state anti-poverty services, neighborhood economic development, homelessness prevention, and fuel assistance and weatherization programs across the Commonwealth.

In keeping with the Governor's "Fix-It-First" policy, the investment strategy for housing includes such initiatives as "Redevelop First" and "Communities First" – fostering the rehabilitation and reuse of existing infrastructure and facilities in town centers and neighborhoods near public transportation rather than promoting new construction in undeveloped areas.

Housing programs funded in the current five-year capital investment plan support private-public partnerships to develop affordable housing, including in distressed neighborhoods, and community-based special-needs housing. The investment also funds maintenance and improvements of the state's aging public housing stock as well as economic development grants to attract and leverage private investment that will stimulate economic development in blighted areas.

Information Technology

<i>(\$ MM)</i>	FY01	FY02	FY03	FY04E	FY05E
Total	\$64	\$86	\$76	\$76	\$82

The Information Technology Division (ITD) capital investment plan funds projects that further the Administration's goal of making government more efficient, convenient, and accessible for the Commonwealth's citizens. ITD major program categories are: Enterprise, E-Government, Health and Human Services, Public Safety, and Education.

Enterprise -- Information technology projects, which facilitate the internal business processes or operational activities of an agency or enterprise level. This program category includes projects that upgrade the Commonwealth's networks, e-mail, and security systems.

- **Major Projects**

- New MMARS, a new statewide accounting system
- MassCourts Maximus Project, a new case management system for the courts

E-Government – Information technology projects that help extend the external business or information services to the user. This includes portal and web-based applications, which enable citizens, businesses, municipalities and employees to perform electronic transactions.

- **Major Projects**

- Legislative Management System, new case management system for the General Court
- Single Application for Public Housing Intakes and Referral (SAPHIRE), new database that creates a single statewide waiting list for state-aided public housing
- E-Licensing, pilot project to determine the best uniform e-licensing system for the Commonwealth

Health and Human Services – Information technology projects to enable the effective delivery of health and human services that promote health and safety, independence, and quality of life for individuals, families, and communities throughout the Commonwealth.

- **Major Projects**

- Virtual Gateway for the Executive Office of Health and Human Services, a secretariat-wide portal that will provide an easy-to-access entry point for clients, providers, and staff
- FamilyNet upgrade, automation of the Title IV-E Eligibility determination process
- NewMMIS, new Medicaid case management system

Public Safety – Information technology projects that have a direct or indirect impact on the safety of the public, state employees, or property. This includes applications that are related to the operational and informational systems supporting public safety programs and personnel.

- **Major Projects**

- Sheriffs' Information & Reporting System (SIRS), database and case management system for the sheriffs
- 800 MHz Wireless Network, for the design, construction and implementation of the public safety statewide voice radio network

CENTRAL ARTERY/TUNNEL (CA/T)

The CA/T Project entails replacing Boston's deteriorating six-lane elevated Central Artery (Interstate 93) with an eight-to-ten lane state-of-the-art underground highway, building two new bridges over the Charles River (the Leverett Circle Connector Bridge

and the Leonard P. Zakim Bunker Hill Bridge), and constructing a third tunnel (the Ted Williams Tunnel) under Boston harbor that extends Interstate 90 (the Massachusetts Turnpike) to Logan International Airport and Route 1A. The depression of the Central Artery creates more than 260 acres of open land and reconnects downtown Boston to the city's waterfront.

The CA/T Project cost is projected to be \$14.625 billion. As of May 31, 2004, the CA/T Project has expended \$13.172 billion, or 90% of the project total cost.

The Interstate 93 initial southbound opening occurred on December 19, 2003. The projected dates for the CA/T Project substantial completion are May 21, 2005 to September 22, 2005.

The project's cash flow estimates ⁽¹⁾ are as follows:

(\$ millions)	Cumulative through FY03	FY04 Projected	FY05 Projected	FY06 Projected	Totals
Project Construction Uses:	\$12,636	\$872	\$885	\$232	\$14,625
Project Construction Sources:					
Federal Reimbursements	6,492	365	183	9	7,049
GO Bond/Note	1,462	52	60	13	1,588
State Interest on Turnpike Authority Funds	45	-	-	-	45
Third Party Contributions	1,653	-	98	209	1,960
Grant Anticipation Notes	1,500	-	-	-	1,500
Transportation Infrastructure Fund	1,434	450	459	-	2,343
Insurance Trust Revenue	50	5	85	-	140
Total Sources	\$12,636	\$872	\$885	\$232	\$14,625

⁽¹⁾ The CA/T Project Finance Plan as reported in the April 1, 2004 Cost/Schedule Status of the Central Artery/Tunnel Project

CONVENTION CENTERS

Boston Convention Center

The Boston Convention and Exhibition Center (the "BCEC") is a 1.6 million square-foot convention and exhibition facility currently under construction on a 60-acre site in South Boston. When completed, the BCEC will be the largest convention and exhibition facility in New England and one of the twenty largest such facilities in the country, as well as the centerpiece of the redevelopment of the City of Boston's Seaport District. The facility will provide over 516,000 square feet of exhibition space on one level, 160,000 square feet of meeting space, a 41,000 square-foot ballroom, and additional banquet and lecture halls. The construction site includes more than 20 acres that will be available for the future expansion of the facility. Local roadways surrounding the facility are being rebuilt and enhanced with new sidewalks and reconstructed roadway surfaces. The BCEC opened this summer and held its first major convention in July 2004.

Springfield Arena and Civic Center

The project includes the construction of a new two-story convention center of 156,551 gross square feet and the renovation of 213,449 gross square feet of the existing arena. The new convention center will include a 40,000 square-foot exhibition hall; 9,000 square feet of meeting room space; 15,000 square-foot ballroom; and 21,400 square feet of pre-function lobby and support spaces.

The existing Civic Center will be totally renovated for use as a multi-purpose arena and the adjacent site redesigned with new brick sidewalks, trees, pedestrian lighting and views into the Center's lobby and pre-function space.

Substantial completion is scheduled for July 2005 with the Grand Opening anticipated for September 2005.

Financing of Convention Centers

On June 29, 2004, the Commonwealth issued \$686.7 million of special obligation bonds to finance the new convention centers. The special obligation debt issued for the convention center projects will be paid from receipts of convention center fees on hotel rooms in the cities of Boston, Cambridge, Springfield, West Springfield, Chicopee, and Worcester, car rentals in the city of Boston, parking at the convention center facilities, site-seeing tours in the city of Boston, and sales and meals taxes within a finance district near the Boston Convention and Exhibition Center and the Springfield Civic Center.

REAUTHORIZATION AND DEAUTHORIZATION

For the past several years, the Commonwealth has maintained a substantial level of authorized but unissued debt. The Administration's capital management policies include the careful scrutiny of authorized debt and the deauthorization of unnecessary commitments wherever possible. Authorized but unissued debt on June 30, 2004 was an estimated \$7.5 billion.

FY	New Autho- rizations	Deautho- rizations	Debt Issued*	Lapsed Autho- rizations	Contributions in lieu of Bonds	Authorized and Unissued	Total Change
2004E	\$308	-	(\$1,300)	(\$232)	-	\$7,498	(\$1,224)
2003	2,149	-	(\$1,911)	-	-	\$8,722	\$238
2002	680	-	(1,486)	-	-	8,484	(807)
2001	282	(137)	(2,369)	(72)	0	9,290	(2,295)
2000	4,117	(2,562)	(1,762)	(206)	(5)	11,586	(418)
1999	1,514	-	(1,334)	-	(492)	12,004	(313)
1998	2,268	-	(1,448)	(235)	(223)	12,317	363
1997	4,707	-	(899)	(36)	-	11,954	3,771
1996	3,594	-	(1,087)	(267)	-	8,183	2,240
1995	2,252	-	(810)	(12)	-	5,943	1,431
1994	613	-	(690)	(24)	-	4,512	(102)
Total	\$20,027	(\$2,699)	(\$11,885)	(\$852)	(\$721)		4,210

* Excluding refunding

PRIVATE ACTIVITY VOLUME CAP

Federal tax law allows the Commonwealth and its designees to issue a limited amount of tax-exempt debt for the benefit of certain private activities. This debt reduces borrowing rates at no cost to state taxpayers and is used primarily for three purposes: promoting college education through low-cost student loans, encouraging the construction of affordable housing, and stimulating economic development. Three quasi-public authorities use the majority of the Commonwealth's private activity volume cap to pursue these goals: the Massachusetts Educational Financing Authority (MEFA), the Massachusetts Housing Finance Authority (MHFA), and the Massachusetts Development Finance Agency (MDFA). In recent years, all three agencies have received increased allocations. In calendar year 2004, the Commonwealth allocated a total of \$514 million in new volume cap.

<i>(Calendar Years)</i>	2000	2001	2002	2003	2004	% Growth 2000 – 2004
Mass. Educational Financing Authority (MEFA)	93	119	135	135	135	45%
Mass. Development Finance Agency (MDFA)	93	139	135	145	127	37%
Mass. Housing Finance Authority (MHFA)	124	139	181	180	230	85%
Totals *	310	397	451	460	514	48%

*Excludes prior-year carryforwards. In 2004, including prior-year carryforwards, MEFA, MDFA, and MHFA were allocated \$135 million, \$166 million, and \$230 million, respectively.